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UNCLAS SECTION 01 OF 02 TAIPEI 004739

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Taiwan Insurance Firm Ordered Closed

11. Summary: Taiwan's Financial Supervisory Commission (FSC) has ordered Kuo Hua Insurance to cease operations due to insolvency and has requested the state-owned Taiwan Insurance Institute (TII) to liquidate Kuo Hua. Outstanding claims against Kuo Hua may exhaust Taiwan's Insurance Stabilization Fund (ISF). End Summary.

Liquidation of Insurance Firm for the First Time

12. On November 18, the FSC ordered Kuo Hua Insurance (not the similarly named Kuo Hua Life Insurance Company) to suspend operations due to insolvency. The FSC also suspended Kuo Hua's board of directors and all board members. According to the FSC order, Kuo Hua may no longer sell insurance products. Meanwhile, the FSC instructed the TII to prepare Kuo Hua for liquidation. In response, TII has assumed control of Kuo Hua's headquarters and eight branch offices and has begun reviewing outstanding policies, claims, and personnel data.

Insolvency

13. According to the FSC Insurance Bureau (IB), Kuo Hua suffered a pretax loss of NT\$1,073 million last year, sending its net worth to negative NT\$515.8 million. In its audit last year, the IB detected problems in Kuo Hua's financial status and ordered it to increase its capital reserves. However, Kuo Hua failed to meet the IB directive, and in September the FSC referred Kuo Hua Chairman Wang Jingbiao to the prosecutor's office for accounting fraud.

Market Stabilization

14. The FSC has assured Kuo Hua customers that their interests will be protected and has urged them not to cancel their insurance contracts, which would result in only partial refunds. There are about 1.02 million outstanding Kuo Hua insurance policies, including 660,000 compulsory automobile liability insurance policies, 19,000 earthquake insurance policies, and 130,000 other kinds of insurance policies, such as fire, marine, credit, and discretionary automobile liability insurance. The insurance company-funded ISF will pay 100% of claims for automobile liability insurance and earthquake insurance and 90% of claims on other kinds of policies. The IB told AIT/T that the ISF has NT\$2.68 billion on hand, which would probably be sufficient to meet the payment obligations.

Likely Acquisition

15. Both local and foreign non-life insurance companies are interested in Kuo Hua because of its extensive market network. FSC officials told AIT that payments to acquire the Kuo Hua network and clients are expected to offset part of the liquidation cost.

COMMENT

16. No Taiwan insurance company has previously ceased operation. The FSC-ordered suspension of Kuo Hua's operations tests a market retreat mechanism for insurance firms and is a reassuring sign of the FSC's commitment to improving the health of Taiwan's financial sector. However, the ISF may be unable to fund any additional insolvency cases unless the Taiwan government injects funds to supplement insurance companies' contributions or raises the contribution amount.

